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WORKING PAPER

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FAR EAST/PACIFIC BRANCH

INTELLIGENCE HIGHLIGHTS NO. 60
20 JULY - 26 JULY 1949

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

Philippine wheelhorse Romulo is distressed over the inclusion of the moribund Chinese Nationalists in the proposed Pacific union and hopes to convince President Quirino that this and other features of the present union proposal are undesirable (p. 2).

A temporary end to the persistent postwar coal shortage in Japan has coincided with a possible solution to the nagging problem of cooking-coal procurement (p. 2). Meanwhile, the Communist-inspired leadership of the independent Railway Workers Union apparently has suffered a setback (p. 3).

While northern Korean propagandists have threatened violence to the delegates of UNCOK presently in the Republic, the Republic's Navy has offered visiting privileges in Korean ports to units of the US Pacific Fleet (p. 4-5).

The new Communist offensive in south-central China appears to be progressing at an unusually leisurely pace (p. 6). Communist front-ranker CHOU En-lai, meanwhile, has publicly abandoned his supposed pro-Western orientation in favor of a strong pro-Soviet stand at the same time that a lesser spokesman in Shanghai has privately deprecated the CCP's ties with the USSR (p. 6). A Tibetan attempt to cast off the remnants of Chinese suzerainty can be assumed to have tacit Indian approval (p. 7).

Recent political and military events in Indochina have given rise to a degree of mild official optimism which probably is unwarranted (p. 8).

While the recently-restored Republic of Indonesia has maintained order successfully within its present limited confines, the far greater test of an effective general truce remains to be met (p. 9).

As a result of strong measures taken in the past weeks, the Australian Labor Government now seems to have a good chance for victory in its campaign to break the paralyzing Communist-inspired coal strike (p. 9).

The marginal notations used in succeeding sections of this Weekly ("A", "B", or "C") indicate the importance of the items in B/FE opinion with "A" representing the most important.

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SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

GENERAL

Romulo suggests new approach to Pacific union--Upon his arrival in Manila last week to undertake Philippine planning on the recently-proposed Pacific union, UN Ambassador Romulo expressed his concern to President Quirino over the direction given the union by the Quirino-Chiang talks at Baguio. Romulo is particularly disturbed over the initial inclusion of the Chinese Nationalist Government, which he terms corrupt, inefficient and dying, and an influence from which the union should be divorced as much as is possible. "AN"

In addition to Chiang's role, Romulo is concerned over the exclusion of India and Australia in Quirino's present plans. He considers the support of India vital to any Asian union and feels that Australia (and New Zealand) should be included to avoid the implication of an anti-white bias. Romulo has told US Embassy Manila that he will not approach other Asian governments on the union until he and President Quirino have reached fundamental agreement.

Considering Romulo's attitude and most Asian nations' cool reception of the prospect of cooperating with Nationalist China, there appear to be two possible Pacific union developments: (1) Romulo will be successful in his attempt to sidetrack Nationalist China and will lay the foundations of a union derived chiefly from his own ideas; or (2) the union proposed by Chiang and Quirino will fail from lack of encouragement before it is formally constituted. Which of these alternatives is most likely cannot be predicted at present.

JAPAN

Coal surplus achieved--This week's announcement that coal stockpiles in Japan have reached some 4 million tons, considerably more than one month's total output, indicates that Japan's major industrial bottleneck has been broken. The coal surplus, large enough to create a storage problem, is the result of increased coal production combined with declining demand. The point now has been reached where limited quantities can be offered on a ration-free basis. "B"

Previous coal shortages have hampered industrial rehabilitation efforts since the start of the Occupation. By November, 1945, production

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had dropped from the wartime average of 63 million tons to an annual rate of 24.6 million tons. Production recovered only fractionally in 1946. Tremendous efforts were expended by the Japanese, first to recruit labor to replace wartime Chinese and Korean miners and later to increase production. Special rations, wage bonuses, incentive goods, housing and welfare programs and mining machinery production programs have been utilized to bring coal output first to its 1948 level of 38 million tons and subsequently to the 1949 production rate of 46 million tons.

Immediately important to the Japanese economy is the possibility of increased fertilizer production, presently only 50% of requirements. Increased allocations for power generation should diminish the costly periodic shut-downs, necessitated by electric power cutoffs, which have plagued Japan's industry. The release of non-rationed coal will also aid many low-priority users who have had to use expensive substitutes or depend upon illegal sources for coal.

It was also announced this week that chemically-treated domestic coal has been successfully utilized by the Japan Iron and Steel Company as a coke substitute in production of pig iron, with better results and at less cost than with previously-imported coking coal. Because of Japan's dependence upon either the US or Communist China for imports of coking coal, it will be especially significant if this process can be developed extensively.

Railway Workers' leftist leadership suffers setback--Political coloration of the leadership of the 600,000-strong independent Japanese Government Railway Workers Union (Kokutetsu) has swung pendulum-fashion between right and left several times in the past four years, with effective control concentrated in the extreme left during recent months. With the completion, last week, of some 95,000 surplus employee dismissals, failure of the Kokutetsu rank-and-file to respond to the leftist leadership's Communist-inspired appeals for violence is significantly contrary to general expectation.

"B"

Opposition to the Communists stemmed from several sources. The general public has been irritated by such occurrences as the assassination of SHIMOMURA, president of the National Railway Corporation, and the "Mitaka Incident" when a runaway train killed several individuals. The Communists have been credited with responsibility for both affairs. The rank-and-file of Kokutetsu shared the public's sentiments and, on the local level, many individuals, groups and even union locals have

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scrapped the union's "dispute tactics" or have seceded from membership. The union leadership's repeated invitation to the National Railway Corporation to negotiate the dismissal problem may have reflected a hesitancy to force the issue for fear that local-level support would not be forthcoming in a showdown. The Railway Corporation's refusal to negotiate, on the grounds that the dismissals were compulsory under the Diet's Table of Personnel Organization Law, gave union leadership the embarrassing alternative of either instituting an "illegal" strike or backing down. The union's leftist leadership was further demoralized by the unexpected dismissal of the majority of Communist or pro-Communist members of the Union's Central Struggle Committee.

While Kokutetsu Communists and their cohorts are at least temporarily in the shadow, the moderate and anti-Communist Democratization League, long opposed to the Communists, is now given an opportunity to consolidate control. The League group may be able to take Kokutetsu, en masse or in part, into the new anti-Communist labor federation, Sanbetsu Rengo (see Intelligence Highlights #59). Continued deterioration of Japan's general economic situation, however, may give the Communists an opportunity to regain Kokutetsu leadership.

KOREA

N. Koreans threaten UNCOK delegates--In a broadcast addressed directly to members of the United Nations Commission on Korea (UNCOK) last week, Radio Pyongyang charged that UNCOK personnel are "tools" of American "imperialism" in southern Korea and closed with a quotation from the "Manifesto of the Fatherland Unification Front" which states that whoever stands in the way of the attainment of unification will be "dealt with on the spot." This broadcast followed the receipt of anonymous threatening letters by El Salvadorian and Philippine delegates. "D"

This new Communist effort to intimidate and discredit UNCOK is a major part of the present "unification" program, based primarily on an appeal to Korean nationalism and anti-foreignism. The "unification" program also is designed to obscure the Korean issue further at the autumn meeting of the UN General Assembly, in an attempt to prevent further UN concern with Korean internal affairs.

Because of UNCOK's unimpressive record in Korea, the Communists may succeed in generating open ill-feeling toward the Commission. Several UNCOK members have been concerned for their personal safety since

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the withdrawal of US troops. The threats of violence already have induced El Salvador to authorize immediate departure of its delegates at their own discretion.

Should UNCOK leave Korea before the autumn UN meeting, or should the General Assembly decide to discontinue further UN representation in Korea, northern Korean Communists would have gained a considerable victory in their psychological warfare against the young Republic.

US offered temporary fleet bases in Korea--The Foreign Minister of the Republic of Korea has indorsed and forwarded to the US Mission in Seoul a letter from the Commanding Officer of the Korean Navy, Admiral Sohn Won Il, to the Commander-in-Chief of the US Pacific Fleet offering to afford facilities in several Korean ports as "temporary mobile bases" for US fleet units. In acknowledging the Foreign Minister's letter of transmittal, US Ambassador Muccio informed him that Admiral Sohn's letter is being transmitted to Cinopac and that the US Government is being informed of the Korean Government's invitation to the US Navy.

"B"

The favorable psychological effect of occasional past US fleet visits to southern Korean ports on both the Korean Government and the general population probably has outweighed the effects of Communist propaganda characterizing the visits as evidence of US "imperialism". Use of southern Korean ports as "temporary mobile bases" by the US fleet probably would be interpreted by most southern Koreans as an indication of continued US interest in the security of the Republic. Any indication that such US fleet activities were permanent in nature, however, would increase the northern puppet regime's ability to exploit the inherent anti-foreign and nationalist spirit of the Korean people.

Rice crop forecast--Heavy rains broke a July drought that had prevented the transplanting of some 550,000 acres of rice, in Kyonggi and adjoining provinces, which contain nearly 20% of southern Korea's total rice acreage. Under normal conditions, these fields could be expected to produce around 500,000 tons of rice. However, the lateness of the transplanting, which traditionally begins in late June or early July, will adversely affect productivity.

"C"

Realization of a possible drought-induced shortage had caused the price of rice to rise by 70% in Seoul from 31 May to 10 July. With the coming of the rains, the price has dropped slightly but still remains 60% over the May figure. In the light of present circumstances, it seems that the Republic of Korea may be barely self-sufficient in rice during 1949. The rice production goal of 2.9 million tons for 1949 is only some

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300,000 tons more than reported harvests in 1948, when southern Korea, temporarily a rice-deficit area, imported 85,000 tons of the grain. In view of Korea's intention to export 110,000 tons of rice to Japan by 1950 in exchange for Japanese exports valued at \$16 million, a poor 1949 rice crop may result in a serious loss of foreign exchanges.

CHINA

Leisurely offensive in south-central China--The fierce intensity of earlier Communist offensives has thus far been lacking in the current Changsha-Hengyang effort. Edging forward without haste and meeting no opposition, the CCF have permitted Nationalist defenders ample time to "retire to new positions". Unconfirmed late reports say that Chuohow, at the junction of the Kiangsi-Chekiang and Canton-Hankow rail lines, has been taken by the Communists, thus cutting off Changsha from the south. The reports add that, following the withdrawal of PAI Chung-hsi's regular forces, Changsha itself is defended only by a provincial garrison and the city's fall is imminent. A small Communist force further southeast, which had begun to push south toward the Kwangtung border, is stalled in the region just south of its point of departure near Kian. "B"

Other military activity last week was recorded in the Ichang area of the Yangtze and in western Shensi, near Paochi. The small Communist force, which took Ichang and Shasi, crossed the Yangtze and began fanning out to the south and west. In Shensi, reinforced Communist troops consolidated their hold on the Paochi area, whence, if they chose, it is possible to move on MA Pu-fang's forces in south-eastern Kansu or pursue HU Tsung-nan's troops, who guard the northern approaches to Szechwan in southern Shensi.

Publicly pro-Soviet Communists modify stand privately--In a speech last week, CHOU En-lai, the high-ranking Communist who played a major role in the tripartite negotiations of 1946-47, identified the "new patriotism" with "internationalism," thus aligning himself, in the public view, with the aggressively pro-Soviet forces of the CCP, led by Chairman MAO Tse-tung and LIU Shao-chi. CHOU endorsed the 1945 Sino-Soviet Treaty as "wholly in accord" with Communist China's long-run interests and claimed that the CCP can withstand an economic blockade of ten years' duration. While CHOU, popularly regarded as pro-Western, was thus assuming a public pro-Soviet stand, a Communist functionary in Shanghai reportedly asserted in private that the CCP has allied itself with the USSR primarily because of China's weakness, that the CCP "consults the USSR on foreign policy" "B"

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simply as Western allies consult one another, that the CCP had been forced to pay heavily for Japanese weapons turned over to them by the USSR and that the CCP is unhappy about commercial relations with the USSR as well as Soviet "interference" in Chinese internal affairs.

While some of these claims may well be true and may presage the disaffection of significant elements of the CCP, it is also possible that certain CCP members - even those publicly most pro-Soviet - have been directed to take such a line in private conversation with Westerners, as part of a plot whereby the CCP's Stalinist leadership might encourage the West to believe that economic assistance to China would strengthen the hand of pro-Western forces. The Stalinists, in fact, would be strengthened by such assistance, and pro-Western sentiment in the Party will be tolerated only so long as it proves useful in attracting Western aid.

Tibetan moves towards independence--The Government of Tibet cut radio communications between Chinese officials in Lhasa and the Chinese National Government in Canton in mid-July. The Tibetans have indicated additionally that they intend to deport some three hundred Chinese, including official Chinese Government representatives, ostensibly as a measure of protection against the growing Communist menace. As the Chinese National Government, whose tenuous sovereignty over Tibet is recognized by the US, disintegrates further, Tibet probably will seize the opportunity to assert its complete independence from China. The Government of India, whose desire to see Chinese influence eliminated from Tibet is reinforced by China's passing under Communist control, can be expected to encourage this move secretly while formally maintaining a correct attitude. "B"

NEWS NOTES

Shanghai under blockade: As unemployment in Shanghai has mounted and business depression had deepened under the impact of the Nationalist blockade, suggestions have been advanced in the vernacular press that the city's economy, based on a cheap labor pool exploited by foreign capital, must be reconstructed rather than restored. A feature of this reconstruction is the proposed redeployment of part of Shanghai's population and industry to other areas. From one third to one half of Shanghai's 6,000,000 people, it has been suggested, should be moved elsewhere and the city should surrender its position as the major

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center of China's light industries, since the national interest requires a lower level of economic activity there. The flavor of sour grapes in these editorials is indicative of the unexpected effectiveness of the Nationalist blockade.

CHIANG'S political strategy--CHIANG Kai-shek is occupied equally with implementation of recent decisions on administrative reorganization and with efforts to keep the warlords in line. CHIANG expects to utilize the Supreme Policy Committee, its branches in Taipei and Chungking, and the new "Party Leader's" Office, to be set up in Taipei, to his advantage. The Taiwan administration may soon be revamped, with K. C. WU appointed to head civil affairs. Although CHIANG recently gave up his plan to visit Szechuan, there is evidence of CHIANG's concern with bolstering resistance forces in northwest and west China. To check the further decline of Nationalist influence in Kweichow and Yunnan, General HO Ying-chin, a native of Kweichow, may be appointed head of a new administration for those two provinces.

INDOCHINA

Bao Dai and French optimistic--Recent developments within the new French-sponsored state of Vietnam have resulted in a slightly more optimistic view of the Indochina situation among French officials. A large and friendly although not "demonstratively enthusiastic" crowd welcomed Emperor Bao Dai on his long-delayed official visit to Hanoi about ten days ago. In addition, feuds within Bao Dai's cabinet have decreased sufficiently to allow the Emperor's associates to predict that the cabinet may be held together for at least three months.

"B"

On the military scene, French forces are proceeding with a vigorous campaign ("Operation Bastille") to secure the Red River delta area near Hanoi in northern Vietnam, despite the rainy season. The French have encountered little opposition to this maneuver, presumably a part of the strategy recommended by the French Chief of Staff, General Revers, following his June inspection tour. High Commissioner Pignon has expressed optimism over Operation Bastille, emphasizing that the more than 40,000 Vietnamese troops who are actively participating with French forces already represent a valuable nucleus for a future Vietnamese National Army. Pignon has stated that these Vietnamese troops ultimately will be employed as guerrilla forces for the policing of Central and South Vietnam, thus freeing French troops for the defense of the Sino-Vietnam border.

Although both the French and Bao Dai are encouraged by these developments, the hoped-for defection of Ho Chi Minh's supporters is not yet evident and Bao Dai has not yet had sufficient time to prove whether or not he will be able to govern effectively, even in the restricted areas of Vietnam which are presently under French control.

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INDONESIA

"Cease-fire" test to come--While the restored Republic of Indonesia has "B"
been able, with the help of Dutch arms, to maintain law and order in the
Jogjakarta Residency, its ability to enforce a cease-fire order through-
out Java and Sumatra, where Republican influence is spread more thinly,
communications are difficult to maintain and dissident groups are stronger,
is as yet untested. At present, both Dutch and Republicans are working
with UNCFI representatives on plans for a workable order to effect the
cease-fire and, in addition, military leaders from Republican outposts
have been called to Jogjakarta to participate in military conferences
and to receive instructions. The Dutch have arranged for technical
assistance to the Republicans, so that President Sukarno may have an
effective means of transmitting commands by radio to more isolated groups.

The Republicans' general international position will be greatly
strengthened if they are able to enforce a cessation of hostilities.
Furthermore, Dutch official circles would be more amenable to negotia-
tion in the forthcoming conference with the Republicans at The Hague
if military operations were at an end in Indonesia. Neither side in
the dispute, however, expects a high degree of effectiveness in the
cease-fire and the Dutch may make use of any Republican weakness in
this regard as an excuse to hamper the proceedings of the Round-Table
Conference.

AUSTRALIA

Australian coal strike in critical phase--It is now believed that the "A"
Labor Government will emerge victorious in its campaign to break the
Communist-led coal strike which has paralyzed Australia for the past
month. Although the drastic Government measures recently employed have
alienated many in the rank-and-file of labor, the general public appar-
ently approves the Government's policy.

Last week, Army and Navy units were called upon to unload coal from
a strike-bound Canadian steamer in order to procure coal for essential
services in Sydney. Simultaneously, the Government warned strike leaders
that some 3,000 troops would work open-cut mines in Queensland and New
South Wales if the miners refused to return to work by 1 August. Army
and Navy units will also be ordered to unload coal at the waterfront,
should the Waterside Workers refuse to do so. The Government already
has the support of land transport unions in New South Wales and Queens-
land for its plan to move open-cut coal to the cities and it will be

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supported by some open-cut coal miners in Queensland who have agreed to return to work. Although only enough coal will be obtained by these methods to maintain a minimum of services, a collapse of the most essential public utility services will be prevented.

The Government, apparently confident of general support from the public, is prepared for a showdown on the general question of coal strikes, which have occurred with increasing frequency in the last four years. Continuous work stoppages in the mines have caused discomfort to private citizens, aggravated the inflationary trend and greatly retarded the postwar program of increased industrial production. Organized labor's dominant position in the Australian economy may well be weakened as a result of popular support for the Government "hard" position in the current coal strike crisis.

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